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SUBJECT: AUSTRIA STEPS BACK ON PENSION REFORM

Ref: Vienna 1715

Summary

¶1. (U) After dealing with the 2007 and 2008 budgets (reftel), the GoA has passed a pension reform bill, which reverses some of the reforms implemented by the previous center-right government. Following up on its election promise to present a more social face to the GoA's economic program, the Social Democratic (SPO)-led government has simplified early retirement procedures. Both the IMF and OECD have urged Austria to do more to close loopholes in the pension system and to contain spending on pensions in the face of an aging population. End Summary.

GoA Reverses Features of 2003-04 Pension Reforms
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¶2. (U) Parliament recently approved the GoA's pension reform bill, which reverses some features of the 2003-2004 pension reforms. The SPO had promised during the October 2006 election to provide more "social fairness and security" and to correct "unfair reforms" implemented by previous governments. This reform fulfills part of the governing coalition's labor program, but not the crucial reform to harmonize the various public pension systems.

¶3. (U) The reform extends from 2007 to 2010 the possibility to retire early without cuts in pension payments at age 60 for men upon completion of 45 work years and for women at age 55 with 40 years of work. The reform will cost an estimated Euro 23 million in 2008 and Euro 86 million in 2010. The reform became effective on July 1, with some regulations retroactively effective to January 1, 2007.

¶4. (U) The IMF Staff Report on the 2007 Article IV Consultation of April 2007 praised the GoA for achievements on the structural front, including on pension reform. However, the IMF urged further reforms, particularly closing remaining loopholes encouraging early retirement. The IMF maintained that further reforms are necessary to contain pension expenditures over the long run in the face of an aging population. The June 2007 OECD report "Pensions at a Glance 2007" criticized the GoA's slow phase-in of the recent pension reforms. Furthermore, the OECD noted that Austria maintains the second highest public spending on pensions in the 30 OECD countries, even after recent changes to the pension system.

Comment

¶5. (SBU) The reversal of some of the features of the 2003-2004 pension reforms reflects an effort by the SPO to keep an election campaign promise. The recent bill is highly questionable for several reasons. First, the GoA has not yet completed its 2003-2004 pension reforms, including the important harmonization of the various public pension systems. Second, the long-term financial sustainability of the pension system in view of the aging population is not yet safe, as reflected in the IMF and OCED comments. Finally, the GoA has not undertaken enough to reduce the incentives encouraging early retirement.

¶6. (SBU) Minister of Social Affairs Erwin Buchinger characterized the OECD criticism as ideologically motivated. Buchinger also announced plans to lift the 2010 time limit for length of service retirement (men with 45 years of service, women with 40) entirely and to facilitate access to disability retirement. These proposals and the recent pension bill reflect the SPO's social agenda, which ignores harsh economic and demographic realities.

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